The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2001: budgetary surplus of $2.5 billion

There was a budgetary surplus of $2.5 billion in June 2001, up slightly from the surplus of $2.3 billion in June 2000. This year-over-year increase was attributable to somewhat higher budgetary revenues, as total expenditures were virtually unchanged.

April 2001 to June 2001: budgetary surplus of $9.9 billion

The budgetary surplus was estimated at $9.9 billion for the April 2001 to June 2001 period, compared to the surplus of $8.7 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was largely attributable to higher personal income tax settlement payments with respect to the 2000 taxation year. These payments related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year.

June 2001: budgetary results

Budgetary revenues increased $0.2 billion, or 1.1 per cent, in June 2001 on a year-over-year basis. Among the major components, only personal income tax revenues were lower.

- Personal income tax revenues declined by $0.5 billion, or 7.4 per cent, primarily reflecting lower deductions from employment income, largely attributable to the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, which came into effect on July 1, 2000, and January 1, 2001. Lower refunds, reflecting timing factors, served to dampen the overall decline.
- Corporate income tax revenues were up $0.2 billion, or 8.0 per cent. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01, monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2001 is $2.25 per $100 of insurable earnings compared to $2.40 in 2000) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up $0.4 billion, or 14.7 per cent. This increase reflected strong advances in both goods and service tax revenues and customs import duties, in part attributable to the timing of payments and refunds.
- Non-tax revenues were up strongly, primarily reflecting the timing of receipts.

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Table 1

Summary statement of transactions

	June		April to June	
	2000	2001	2000-01	2001-02
	($ millions)			
Budgetary transactions				
Revenues	14,860	15,029	45,229	47,631
Program spending	-9,113	-9,446	-26,276	-27,816
Operating surplus	5,747	5,583	18,953	19,815
Public debt charges	-3,450	-3,111	-10,205	-9,904
Budgetary balance (deficit/surplus)	2,297	2,472	8,748	9,911
Non-budgetary transactions	-7,253	-7,567	-9,802	-10,704
Financial requirements/source (excluding foreign exchange transactions)	-4,956	-5,095	-1,054	-793
Foreign exchange transactions	555	449	2,168	312
Net financial balance	-4,401	-4,646	1,114	-481
Net change in borrowings	353	-8,170	-5,286	-8,983
Net change in cash balances	-4,048	-12,816	-4,172	-9,464
Cash balance at end of period			8,789	3,708

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

On a year-over-year basis, program spending increased by $0.3 billion, or 3.7 per cent, reflecting strong increases in transfers to persons and other levels of government, dampened by lower direct program spending. Among the major components:

- Major transfers to persons were up $0.2 billion, or 8.4 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments primarily reflects the impact of policy enhancements announced in the February 2000 budget and last September.
- Major transfers to other levels of government were up $0.4 billion, or 20.4 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, declined by $0.3 billion, or 6.4 per cent. Subsidies and other transfers, payments to Crown corporations and non-defence departmental operating and capital expenditures were lower. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, were down $0.3 billion, or 9.8 per cent, largely reflecting adjustments to previous months' estimates.

April 2001 to June 2001: budgetary results

Over the first three months of fiscal year 2001-02, the budgetary surplus was estimated at $9.9 billion, up $1.2 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects higher personal income tax settlement payments with respect to the 2000 taxation year.

Table 2

Budgetary revenues

	June			April to June		
	2000	2001	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	7,215	6,682	-7.4	21,842	22,860	4.7
Corporate income tax	2,141	2,312	8.0	6,180	6,832	10.6
Other income tax revenue	218	243	11.5	811	913	12.6
Total income tax	9,574	9,237	-3.5	28,833	30,605	6.1
Employment insurance premium revenues	1,750	1,748	-0.1	5,309	5,327	0.3
Excise taxes and duties						
Goods and services tax	1,898	2,196	15.7	6,495	6,804	4.8
Customs import duties	165	278	68.5	455	673	47.9
Sales and excise taxes	786	794	1.0	2,079	2,174	4.6
Total excise taxes and duties	2,849	3,268	14.7	9,029	9,651	6.9
Total tax revenues	14,173	14,253	0.6	43,171	45,583	5.6
Non-tax revenues	687	776	13.0	2,058	2,048	-0.5
Total budgetary revenues	14,860	15,029	1.1	45,229	47,631	5.3

Budgetary revenues were up $2.4 billion, or 5.3 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were up $1.0 billion, or 4.7 per cent. All of this increase was attributable to final tax payments received in April and May with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains. Dampening the impact of these settlement payments was the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. These included the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit.
- Corporate income tax revenues were up $0.7 billion, or 10.6 per cent. This is considerably stronger than the reported increase in corporate profits so far this year, which suggests that the current experience reflects the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is $2.25 per $100 of insurable earnings, compared to $2.40 in 2000 and $2.55 in 1999.
- Excise taxes and duties increased by $0.6 billion, or 6.9 per cent, in line with the underlying increase in consumer expenditures.
- Non-tax revenues were down slightly.

Program spending increased by $1.5 billion, or 5.9 per cent, in the April 2001 to June 2001 period, compared to the same period last year.

- Transfers to persons were up 5.3 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit

Table 3

Budgetary expenditures

	June			April to June		
	2000	2001	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,967	2,050	4.2	5,936	6,204	4.5
Employment insurance benefits	757	903	19.3	2,702	2,891	7.0
Total	2,724	2,953	8.4	8,638	9,095	5.3
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	3,375	4,325	28.1
Fiscal transfers	991	1,057	6.7	2,886	3,099	7.4
Alternative Payments for Standing Programs	-206	-200	-2.9	-617	-600	-2.8
Total	1,910	2,299	20.4	5,644	6,824	20.9
Direct program spending						
Subsidies and other transfers						
Agriculture	5	152		27	381	
Foreign Affairs	99	141	42.4	243	325	33.7
Health	66	75	13.6	254	273	7.5
Human Resources Development	228	86	-62.3	296	239	-19.3
Indian and Northern Development	323	255	-21.1	1,481	1,171	-20.9
Industry and Regional Development	131	174	32.8	283	326	15.2
Veterans Affairs	118	123	4.2	355	366	3.1
Other	474	162	-65.8	812	542	-33.3
Total	1,444	1,168	-19.1	3,751	3,623	-3.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	70	80	14.3	285	320	12.3
Canada Mortgage and Housing Corporation	170	158	-7.1	470	474	0.9
Other	144	96	-33.3	349	389	11.5
Total	384	334	-13.0	1,104	1,183	7.2
Operating and capital expenditures						
Defence	874	1,109	26.9	2,032	2,318	14.1
All other departmental expenditures	1,777	1,583	-10.9	5,107	4,773	-6.5
Total	2,651	2,692	1.5	7,139	7,091	-0.7
Total direct program spending	4,479	4,194	-6.4	11,994	11,897	-0.8
Total program expenditures	9,113	9,446	3.7	26,276	27,816	5.9
Public debt charges	3,450	3,111	-9.8	10,205	9,904	-2.9
Total budgetary expenditures	12,563	12,557	0.0	36,481	37,720	3.4
Memorandum item:						
Total transfers	6,078	6,420	5.6	18,033	19,542	8.4

payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of the program enhancements.

- Major transfers to other levels of government were up 20.9 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.8 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges were down 2.9 per cent, reflecting the impact of declines in both the stock of interest-bearing debt and in the average effective interest rate on that debt.

Financial requirement of $0.8 billion (excluding foreign exchange transactions) for April 2001 to June 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $10.7 billion in the first three months of 2001-02, compared to a net requirement of $9.8 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of $9.9 billion and a net requirement of $10.7 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $0.8 billion in the April 2001 to June 2001 period, compared to a net requirement of $1.1 billion in the same period last year.

Net financial requirement of $0.5 billion for April 2001 to June 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of $0.3 billion in the first three months of 2001-02, compared to a net source of $2.2 billion in the same period in 2000-01.

With a budgetary surplus of $9.9 billion, a net requirement of $10.7 billion from non-budgetary transactions and a net source of $0.3 billion from foreign exchange transactions, there was a net financial requirement of $0.5 billion in the April 2001 to June 2001 period, compared to a net source of $1.1 billion in the same period in 2000-01.

Table 4

The budgetary balance and financial requirements/source

	June		April to June	
	2000	2001	2000-01	2001-02
		($ millions)		
Budgetary balance (deficit/surplus)	2,297	2,472	8,748	9,911
Loans, investments and advances				
Crown corporations	188	52	196	232
Other	18	92	113	34
Total	206	144	309	266
Specified purpose accounts				
Canada Pension Plan Account	150	-670	-26	-443
Superannuation accounts	97	-302	640	-496
Other	-134	-75	-227	-22
Total	113	-1,047	387	-961
Other transactions	-7,572	-6,664	-10,498	-10,009
Total non-budgetary transactions	-7,253	-7,567	-9,802	-10,704
Financial requirements/source (excluding foreign exchange transactions)	-4,956	-5,095	-1,054	-793
Foreign exchange transactions	555	449	2,168	312
Net financial balance	-4,401	-4,646	1,114	-481

Table 5

Net financial balance and net borrowings

	June		April to June	
	2000	2001	2000-01	2001-02
		($ millions)		
Net financial balance	-4,401	-4,646	1,114	-481
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,963	-3,187	9,226	-2,041
Canada Savings Bonds	-256	-86	-403	-166
Treasury bills	-3,600	-3,600	-12,500	-4,600
Other	500	-4	700	-4
Total	607	-6,877	-2,977	-6,811
Payable in foreign currencies				
Marketable bonds			-2,174	-1,576
Notes and loans		-41		-41
Canada bills	-254	1,252	-85	-382
Canada notes				-173
Total	-254	1,211	-2,259	-2,172
Net change in borrowings	353	-5,666	-5,236	-8,983
Change in cash balance	-4,048	-10,312	-4,122	-9,464

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	June 30, 2001	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,511	33,502	-10,009
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,196	-496
Canada Pension Plan (net of securities)	6,409	5,966	-443
Other pension and other accounts	7,080	7,058	-22
Total pension and other accounts	143,181	142,220	-961
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	292,586	-2,041
Treasury bills	88,700	84,100	-4,600
Canada Savings Bonds	25,753	25,587	-166
Other	3,473	3,469	-4
Subtotal	412,553	405,742	-6,811
Payable in foreign currencies	33,171	30,999	-2,172
Total unmatured debt	445,724	436,741	-8,983
Total interest-bearing debt	588,905	578,961	-9,944
Total liabilities	632,416	612,463	-19,953
Assets			
Cash and accounts receivable	18,612	9,148	-9,464
Foreign exchange accounts	50,010	49,698	-312
Loans, investments and advances (net of allowances)	14,268	14,002	-266
Total assets	82,890	72,848	-10,042
Accumulated deficit (net public debt)	549,526	539,615	-9,911

Note: Assumes fiscal balance of $15 billion for 2000-01.

Net borrowings down $9 billion for April 2001 to June 2001

Although there was a net financial requirement in the first three months of 2001-02, the Government did reduce its holding of market debt by $9 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of June 2001, they stood at $3.7 billion, down $9.5 billion from March 31, 2001.

Note to Readers:

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget, the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget, the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being, the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at www.fin.gc.ca.

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